

Review of Operations

ENERGY NETWORKS

Two regulated distribution businesses – Gas Networks in NSW and Electricity Networks in metropolitan Melbourne – form AGL's Energy Networks division. Both businesses own energy infrastructure and contract capacity to retailers who use the infrastructure to transport energy to their customers.

The division contributed \$215.9 million to profit before borrowing costs, tax and significant items, an increase of \$3.8 million from the consolidated amount reported last year.

The major impact on the division's earnings has been warmer-than-anticipated weather during winter and spring, which adversely impacted energy transported and subsequently network revenue.

Gas Networks

Gas Networks contributed \$151.9 million to profit before borrowing costs, tax and significant items, an increase of \$0.6 million over last year.

The result from Gas Networks last year included a \$12.6 million transfer from the former Gas Customers' Reserve Account (GCRA). This was part of the transitional mechanism agreed with the Independent Pricing and Regulatory Tribunal (IPART) to remove the cross-subsidy from network pricing for contract customers. In this year the useful lives of gas meter assets were amended, resulting in a reduction in depreciation of \$3.2 million.

If this year's result is adjusted for the \$12.6 million contribution from the GCRA and the \$3.2 million reduction in depreciation, the result reflects an underlying increase in profit of \$10.0 million year-on-year. This was achieved despite the negative impact of Sydney's warmest July-to-December period since 1988 and the warmest spring in 144 years.

Gas transported was 97.1 PJ delivered to 888,572 sites. Total gas transported was almost the same as last year with lower volumes to the residential and small business sector, driven by the negative impact of the warm weather, offset by higher volumes to the industrial sector.

On the upside, new site growth – mostly in new housing – saw a further 28,008 sites added to the network, extending the distribution network by a further 205 km and bringing the total length to 22,968 km.

Gas Networks transports natural gas in accordance with non-discriminatory arrangements approved by IPART, to a number of licensed gas retailers including Energy Australia, Citipower, Origin Energy and Country Energy, in addition to AGL's own retail businesses, which remain the largest users of the network.

The final stage of the NSW Blue Mountains reinforcement project was completed in June this year. Its completion was marked by the commissioning of a 19 km extension of the primary main from Eastern Creek to Penrith, which will provide long-term capacity and security of supply to the Blue Mountains and western Sydney.

Electricity Networks

Electricity Networks contributed \$64.0 million to profit before borrowing costs, tax and significant items, which is an increase of \$3.2 million over last year.

This result was achieved with cost of sales being \$4.6 million higher than anticipated due to higher Transmission Use of System costs. These costs have been partially recovered through a pass-through mechanism agreed with the Essential Services Commission (ESC), which allowed higher network charges from 1 January 2003. Also, the result was impacted when the useful lives of various 'installed' electricity distribution assets were amended, resulting in a reduction in depreciation of \$5.0 million.

Electricity transported was 4,034 GWh, to 272,405 sites. As with Gas Networks, the result was achieved despite generally milder weather conditions over winter and summer and was attributed to strong growth in the number of sites connected.

A further 6,652 sites were added to the network, extending the distribution network by a further 51 km and bringing the total length to 7,174 km.

Electricity Networks distributes electricity on behalf of a number of licensed electricity retailers and in accordance with non-discriminatory contractual arrangements with electricity retailers covering the terms and conditions of network access. The terms of these agreements are consistent with a Default Use of System Agreement approved by the ESC in June 2002.

In July 2003, the ESC released a report comparing the performance of Victoria's five electricity distributors for the period 1 January to 31 December 2002. The ESC reported that AGL's Electricity Networks had met the ESC's network performance targets and had shown improvement in both unplanned interruption frequency and duration.

REGULATORY ISSUES

During the year there were no major regulatory reviews affecting AGL's gas or electricity assets.

Energy market reform has however been identified as a priority by Australian governments and there have been a number of significant developments during the year. AGL will continue to press governments to continue the energy reform agenda, particularly in the areas of retail and distribution regulation and pricing.

The Energy Market Review led by Warwick Parer issued its final report in December 2002. The recommendations of this report ranged from high-level reform of policy and governance arrangements through to specific restructuring in the wholesale energy markets, in the electricity transmission sector, in the upstream gas industry and gas pipeline access regimes, and in greenhouse emission abatement schemes. AGL has played an active role in contributing to this debate on the future of the energy market, independently and through industry associations.

In July 2002, the National Electricity Market Ministers Forum agreed to investigate the costs and benefits of establishing a single national regulator. This was followed in June 2003 by an agreement by the Ministerial Council on Energy to establish a single national energy industry regulator with links to the ACCC. The new body will initially be given responsibility for electricity, with gas to follow one year later.

The Productivity Commission's final report on its review of the National Access Regime was released in September 2002 and the Commonwealth endorsed the thrust of the majority of the recommendations in its response during November. The Productivity Commission's recommendations address many of the industry concerns about the uncertainty and lack of incentives facing investors in infrastructure.

In November 2002, the Ministerial Council on Energy agreed to a review of the gas access regime and in June 2003 the Productivity Commission was asked to undertake that inquiry and report within twelve months. AGL welcomes the commencement of this review and anticipates taking an active role in the debate.

As a consequence of the review of the gas access regime, the reviews of the Access Arrangements for AGL's NSW gas distribution network and ActewAGL's ACT gas distribution network have been delayed six months. These reviews, which will establish distribution reference tariffs for the ensuing five years, will now have revision commencement dates of 1 January 2005.

Governments have also started examining ways to deliver on greenhouse gas emission objectives: the Commonwealth is reviewing the Mandatory Renewable Energy Targets scheme, NSW introduced an emissions scheme on 1 January 2003 and has been consulting on its framework, and Victoria has commenced a greenhouse policy development review process.

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AGL has actively taken part in this debate, seeking to ensure that carbon constraints deliver optimum environmental outcomes at the lowest cost to customers.

ENERGY SALES & MARKETING

The Energy Sales & Marketing (ES&M) division sells and markets gas, electricity and energy services across Australia. The division contributed \$196.6 million to profit before borrowing costs, tax and significant items, compared with \$102.2 million last year. The improvement was driven by the acquisition of Pulse Energy (\$96.2 million contribution).

The acquisition of Pulse Energy on 31 July 2002 was an important acquisition as its customer footprint was contiguous with the areas of established operation in Melbourne. The acquisition added 517,000 gas customers and 562,000 electricity customers, giving AGL a total customer base of approximately 3 million. The portfolio of customers, the largest in Australia, enhances AGL’s ability to execute its dual-fuel retailing strategy and provides opportunities for increased economies of scale. In addition, the acquisition of Pulse Energy gave AGL access to Bass Strait gas to aid in the development of a portfolio of supply contracts.

Natural Gas

At 155.2 PJ total natural gas sales were 44.7 PJ higher than last year. Higher volumes were due to 49.1 PJ supplied to ex-Pulse Energy customers, but were offset by 5.6 PJ lower wholesale gas sales.

Sales of natural gas to the mass market (residential and small business customers) in NSW (excluding Queanbeyan, which transferred to ActewAGL in October 2000) decreased by 0.9 PJ to 29.6 PJ. This was primarily due to the mild winter and net customer losses of 27,651 during the year.

Sales to retailer Origin in Victoria via the Wagga Wagga to Wodonga Interconnect pipeline, totalled 2.0 PJ. This was down from 5.0 PJ last year. However 3.0 PJ were sold to Origin in South Australia. Other sales during the year included 10.1 PJ to Incitec, 8.5 PJ to National Power, 6.5 PJ to ActewAGL and 2.5 PJ to Country Energy.

In December, AGL secured a \$4.5 billion gas and transportation portfolio which will provide diversified and market competitive gas supplies into the future. The Cooper and Surat basin contracts will be used primarily to supply the NSW, ACT and South Australian markets as well as providing security of supply and peak day capacity to the Victorian market. The Gippsland gas contract will complement existing Victorian arrangements (acquired with Pulse Energy) and additionally supply NSW and ACT markets through the Eastern Gas Pipeline or the Wagga Wagga to Wodonga Interconnect. This portfolio provides increased diversification, competitive prices and improved risk management through reduced reliance on one source of supply.

Electricity

The acquisition of Pulse Energy increased electricity sales to Victorian customers by 4,146 GWh, which was equivalent to 26.0% of the total load supplied last year. Consequently, electricity sales in Victoria grew to 9,316 GWh for the year.

In South Australia, demand for electricity was up 137 GWh to 8,643 GWh. Whilst there was a significant increase in mass market tariffs in South Australia from 1 January 2003, the result was impacted by the high cost of wholesale electricity contracts in this market particularly over the summer period.

Outside South Australia, retail electricity results in Victoria (excluding the Pulse Energy acquisition) and NSW demonstrated continued growth with 8.2% (394 GWh) and 18.2% (488 GWh) respectively in total load supplied over the previous period.

This growth was achieved by both successful acquisition of mass market customers through Full Retail Contestability and securing additional business contract load.

Energy Services

AGL focuses on providing customers with the best solution for their energy needs and superior service. This includes value-adding products and services that go beyond the straight sale of energy. Examples include real-time energy usage monitoring, programmed maintenance, power factor correction, power quality analysis and energy management advisory services. This also extends to building, owning and operating energy plant and equipment for customers.

Revenue potential in Energy Services has continued to improve with new landfill cogeneration projects planned or underway, completion of cogeneration plants at Melbourne Water's Werribee sewerage plant, South Australia's Coopers Brewery plant, and the Melbourne Airport build-own-operate agreement. In addition, AGL operates refuelling stations at Leichhardt, Port Botany, Ryde, and Waverley to supply the NSW State Transit Authority buses, that are fuelled by natural gas.

Energy Services is near completion of complying with the registration requirements for NSW Greenhouse Abatement Certificates (NGACs) to be derived from its cogeneration projects. Although the market for these and other Renewable Energy Certificates (RECs) is relatively small and in the early stages of development, these will provide growth opportunities for AGL.

AGILITY

Agility is one of a few companies in Australia capable of providing owners and managers of energy infrastructure with a comprehensive, whole-of-life portfolio of construction, management, operation and maintenance services.

In the year ended June 2003, Agility contributed \$50.5 million to profit before borrowing costs, tax and significant items.

Agility continued to manage its foundation asset management contracts with the Australian Pipeline Trust and the ActewAGL joint venture, as well as managing, operating and developing AGL's own gas and electricity distribution and power generation assets. These contracts provide both significant recurring revenues and cost efficiencies for AGL-owned infrastructure.

Agility has also continued to pursue successfully, unrelated third-party opportunities both in its traditional gas and electricity markets as well as more recently in water infrastructure.

Highlights during the year included:

- The completion of the sixth stage of looping on the Roma to Brisbane pipeline from Redbank to Ellengrove;
- Completion and commissioning of the Momey Tank compressor station on the Carpentaria Gas Pipeline for the Roverton joint venture;
- Installation of a 66/22 kV zone substation at Melbourne Airport under a very tight timeframe to have supply available before Christmas 2002. Agility will also operate, monitor and maintain the substation for 15 years;
- Construction of a water main at Miranda for Sydney Water – the first water industry project Agility has been involved in. Following the success of this project, Sydney Water awarded Agility the design, development and construction of a pipeline from the Cascade water filtration plant to its Greaves Creek system and the upgrading of the plant's pumping station;
- Completion and commissioning of the Hallett and Somerton power generation plants. Agility now operates and maintains these plants to ensure their availability during critical periods; and

- Commencement of construction of the Paraburdoo compressor station in Western Australia for the Goldfields Gas Trust.

POWER GENERATION

AGL has ownership in generation plants, providing a total energy output capacity of 363 MW. The plants at Somerton (150 MW capacity) and Hallett (180 MW capacity), in Victoria and South Australia, play an important role in mitigating AGL's potential risk exposure to the volatility of electricity spot prices during periods of peak electricity demand. In addition, the Somerton plant provides network support to both the AGL and TXU electricity networks. In Western Australia, AGL has a 20 MW plant operating at Cawse and a 50% interest in a 13 MW plant at Windimurra. These two plants each service a single customer in the mining and minerals industry.

AGL Power Generation contributed \$20.1 million to profit before borrowing costs and tax, an increase of \$17.1 million over last year. The increase was primarily due to the commencement of commercial operation at Somerton and Hallett, achieved ahead of the recent summer peak period.

Operations at the plant at Windimurra were scaled back during the second half of the year due to a reduction in power demand from the customer, who ceased operations at the site in March this year. The plant has entered a 'care and maintenance' mode until a decision about its future is finalised.

As part of AGL's strategy to divest itself of assets in remote locations that are reliant on single customers, AGL's 15% interest in the Southern Cross Energy 250 MW power generation assets in Western Australia was sold in November last year to TransAlta for \$11.9 million.

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Looking for innovative ways industrial energy users could save money, energy and greenhouse gas emissions, inspired AGL's Newton Samarakoon to develop an Energy Performance Management system. This unique web-based system enables customers to actively monitor energy efficiency, not just energy consumption on an hourly basis.

The system also measures greenhouse gas emission savings achieved by the plant.



how

AGL makes it easier for companies to see how their operations are performing from shift to shift or plant to plant anywhere in Australia. Businesses can save up to 15% of energy and greenhouse gas emissions through good housekeeping measures alone.



JOINT VENTURES AND OTHER PART-OWNED INVESTMENTS

The ActewAGL Distribution and Retail Joint Venture

The 50% interest in the ActewAGL joint venture contributed \$44.4 million, up 3% over the previous year. This result was achieved through improved revenues and cost control. The business has 146,474 electricity customers and 105,260 gas customers in the ACT and surrounding areas, an increase of 5.4% and 18.7% respectively.

On 26 June 2003, Actew and AGL agreed to extend the current arrangements to include a larger geographic area, known as the Capital Region, ranging from the Shire of Crockwell in the North (including Goulburn) to the Shire of Bega Valley in the South. This will allow the joint venture to improve its economies of scale and thereby increase returns to both AGL and Actew.

ActewAGL was impacted by the bushfires in Canberra losing a significant number of assets. However, most of the assets affected by the fires were replaced or repaired by 30 June 2003.

The bedding-down of the acquisition of the Nowra gas distribution and retail assets is proceeding well. Returns are above those expected and the growth in customer numbers is encouraging.

The Australian Pipeline Trust

AGL's 30% equity accounted investment in the Australian Pipeline Trust (APA) performed well over the year with its contribution of \$16.4 million to profit before borrowing costs and tax increasing by \$0.1 million over the prior year. APA acquired over the course of the year another 10% direct interest in the Goldfields Gas Transmission Pipeline in Western Australia which gives it a 55% investment in this very attractive asset.

INTERNATIONAL

New Zealand

NGC Holdings Limited (NGC)

AGL's 66%-owned NGC had an excellent year. It delivered a strong performance and successfully achieved its key strategic objective: to rebuild its balance sheet by repositioning itself from being a supplier of mass market energy to an infrastructure-focused energy services company with primarily business-to-business commercial relationships.

The company's profit contribution to the Group results before borrowing costs, tax and significant items amounted to \$135.9 million, an increase of 2.3% over the previous year. In addition, as a result of the successful disposal of its generating assets for NZ\$673.6 million, a one-off profit before tax of \$63.7 million was achieved.

As announced in the 2002 Half-year Report to Shareholders, NGC's 90,000 retail gas tariff customers were sold to Genesis Power for a net NZ\$43.6 million. After charging NZ\$43.6 million of unallocated goodwill and costs to the transaction, no profit was booked for the sale. NGC will supply Genesis with at least 4 PJ of wholesale gas a year for the next five years to service the gas retail customer base and will continue to supply gas directly to approximately 500 larger industrial and commercial sites.

NGC's 50% interest in the Southdown cogeneration power station and in the electricity output from the Rotokawa geothermal power station near Taupo were sold to Mighty River Power for NZ\$88.0 million. The latter was a joint venture partner with NGC in the Southdown power station and wholly-owns Rotokawa. In addition, NGC sold its interests in the Taranaki and Cobb power generation assets to Contact Energy and TrustPower respectively on 3 March 2003 for a total of NZ\$585.6 million.

The sale of these generation assets, as well as the retail gas undertakings, has significantly improved NGC's risk profile. NGC has, essentially, eliminated all goodwill and reduced the volatility of its earnings. Its repositioning in the New Zealand energy sector has been recognised and welcomed by the market.

NGC has announced it will undertake a capital return through a New Zealand High Court approved Scheme of Arrangement. This will be subject to obtaining shareholder approval and a satisfactory tax ruling. It is expected that the return will be completed by December 2003. NGC's strong financial position has been confirmed by rating agency Standard & Poor's, which rates the company as A-.

Excluding the financial impact of the strategic initiatives undertaken by the company the ongoing business performed well. Gas trading volumes were up 7.2%, while gas transported was down 7.6%. The metering business, where NGC holds 45% of the New Zealand market, performed well with profits up 4.1%. The liquid fuel business, which includes NGC's LPG interests, improved profitability by 13.3%.

In March 2003, through its LPG retailing business 'On gas', NGC established a strategic alliance with nationwide plumbing merchant Plumbing World to expand its LPG business throughout New Zealand, but with initial focus on developing the LPG market in Christchurch.

On the external front, NGC was affected by the redetermination of gas reserves in the Maui gas field that reduced its original allocation of 800 PJ by an estimated 138 PJ. At the current rate of consumption, NGC's Maui entitlements are now likely to be exhausted by mid 2007, some two years earlier than the contract period. The final allocation is subject to discussions between the Maui joint venture and the Government.

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NGC is, however, actively pursuing a strategy to improve its reserves entitlements position, which still includes 50% of the Kapuni gas field. NGC has committed capital expenditure to return its Kapuni gas treatment plant to full processing capacity and expand LPG storage at the site by the end of this year. This will increase the plant’s current capacity to produce retail market specification gas by around 30% and also enhances the strategic nature of the plant to process new gas discoveries that may require carbon dioxide removal before delivery into the market.

TrustPower Limited

AGL divested its 20.5% interest in TrustPower, a New Zealand electricity retailer and generator, by way of a shareholder-approved share buy-back in June this year for \$130.5 million, giving rise to a loss of \$4.0 million. This one-off loss has been separately disclosed in AGL’s accounts. TrustPower contributed \$6.0 million by means of dividends to the Group’s profit before borrowing costs and tax, an increase of \$1.2 million over the previous year. NGC is now AGL’s single New Zealand investment vehicle.

Chile

AGL’s 100%-owned Chilean gas distribution and retail business GasValpo, which distributes and markets natural gas in the coastal region west of Santiago, continued to improve its performance, contributing \$7.0 million to the Group’s results. This is an increase of \$5.2 million over the previous year.

GasValpo now has 36,000 customers in Region V. The increase in gas sales volumes by 191 TJ to 3,148 TJ reflects the significant drive to connect new customers which has been occurring in this business.

The process of converting the government-owned El Teniente copper mine and Caletones processing facility in Region VI is well underway.

When the conversion from fuel oil and diesel to natural gas is complete in 2005, the mine will be GasValpo’s largest customer, consuming 2.4 PJ of natural gas a year. In March 2003, the existing contract with GasValpo’s largest customer in Region V, was successfully renegotiated and extended.

Government permission to distribute gas in Region VI was granted to GasValpo in May 2003. In April, after receiving the necessary licences and documentation, GasValpo commenced importing gas directly from Argentina. The arrangement enhances GasValpo’s capability to expand further and also provides savings in operational costs.

TELECOMMUNICATIONS

AGL has investments in COMindico, a national internet protocol based telecommunications network and TransACT, a broadband fibre optic telecommunications network operating in the ACT. As previously signalled to Shareholders, both are not part of the Company’s core business. Whilst recognising that exiting these investments may not be possible in the short term, the Company intends to do so as soon as it can extract appropriate value.

COMindico

During the year AGL commenced equity accounting of its investment in COMindico. As a result AGL has recognised its share of COMindico’s losses from the date of its original investment in September 2000 through to 30 June 2003, totalling \$52.5 million.

COMindico is currently developing a suite of data and voice products. Sales revenue for the year of \$35.2 million was up significantly, mainly arising from data products, with voice products expected to contribute next year. AGL expects to use COMindico’s products and services in the near future.

know

Natural gas is the cleanest burning transportation fuel available today. AGL's Dr Hien Ly is one of the world's respected technical experts in natural gas vehicles. Hien and AGL have an ongoing commitment to contribute to the development of greener fuels for the future.



how

Quieter, cleaner and economic to run, natural gas buses are changing the face of public transport and improving urban air quality for Sydney. From two buses on trial in 1989, today the NSW State Transit Authority's fleet has expanded to 404 buses, with plans for hundreds more, making it one of the world's largest natural gas bus fleets.



TransACT

Roll out of TransACT's network in Canberra was affected by the Canberra bushfires in January, but it is now back on track. TransACT, offers a suite of products ranging from telephony to internet and video streaming. The network has been rolled out to 32 suburbs of Canberra and is now available to over 61,000 residences and businesses.

The continuing value of AGL's investment in TransACT was reviewed during the year and \$17.0 million has been written off.

LPG

Elgas (50% owned)

Elgas' contribution to profit before borrowing costs and tax increased from \$11.3 million to \$12.8 million. Last year's contribution included a one-off profit of \$1.4 million when Elgas sold 50% of its autogas assets to Unigas, a joint venture partnership with Wesfarmers Kleenheat Gas. The underlying 29% improvement reflects a strong trading performance.

During the year Elgas generated excellent cash flows and was able to pay back its \$65.0 million subordinated debt to its shareholders. This has strengthened the balance sheet and helped improve returns.

Elgas Energy, which markets LPG to the domestic, industrial and commercial segments, achieved good profit growth despite a general rising gas cost regime, particularly during the Iraq war. The leisure market was one source of growth as more customers moved to the barbeque cylinder exchange system and into patio heating.

The Midstream business also achieved profit growth as greater volumes passed through the Elgas Cavern at Port Botany, Sydney. In addition to supplying the autogas market, the Cavern was also a backup supplier to Sydney's oil refineries.

The autogas market continued to struggle as consumers resisted some of the high prices caused by world commodity markets.

The Trebeck Fuel Tax Inquiry, along with the GST introduced in 2000, served to create uncertainty in motorists' minds. Recently the Commonwealth Government stated its intention to impose an excise on autogas with effect from 2008.

Such an excise would be a major setback to all alternative fuels. However, very strong widespread opposition is mounting against this proposal. In addition, the movement towards a reduction in greenhouse gas emissions and improvements to urban air quality, will be adversely affected. Elgas, through the industry association, continues to voice its concern to the Commonwealth Government and opposition parties.

H C Extractions (100% owned)

H C Extractions benefited from high world oil prices during the Iraq war and consequent increases in the parity pricing of LPG, the low US dollar and the major maintenance overhauls completed last year. Higher production volumes, higher sales prices and lower maintenance charges saw profit before borrowing costs and tax increase by \$3.5 million to \$7.3 million over the previous year. Total LPG production was 35,951 tonnes and 9,616 tonnes of naphtha.

PROPERTY

The remediation of Breakfast Point in Sydney, completed last year, was signed off by an independent environmental auditor and the NSW Environment Protection Authority (EPA). Lot 5 was settled for \$21.4 million in December 2002, realising a \$13.5 million profit before tax. Lot 6 is scheduled for settlement in December 2004. Other properties sold during the year included an industrial property at Spotswood in Melbourne and in June this year following its remediation, the former gasworks site at Steel and Ravenshaw Streets in Newcastle.

PEOPLE

AGL has a philosophy of developing its people for senior management and technical positions. The talent

management process is aimed at identifying, developing and retaining a pool of talent from which the successors for the top levels of the organisation can be drawn. It has now been cascaded throughout the organisation to identify talented people even earlier in their careers with AGL.

More broadly, the Company is developing all of its people by identifying learning opportunities for them that may fall within their everyday work, or form part of their formal training. This is done through a six-monthly development plan and review process.

In acquiring businesses such as Pulse Energy, AGL has striven to adopt the best aspects of this organisation. The approach to these transitional periods is to ensure a steady flow of communication so that both new and existing employees feel included and understand where AGL is heading as a Group.

AGL's commitment to leadership is evident in the AGL Senior Leadership Development programme. This residential programme has a strong focus on the behaviours required for shaping the future. It includes subjects such as corporate governance, ethics in business, building emotional intelligence and personal values.

A new performance, development and review programme introduced this year provides a clear path for AGL employees to understand exactly what is expected of them in their roles. The programme provides them with a simple method of defining business success and staying on course to achieve it. Performance results are also now more closely linked to remuneration. This not only allows employees to be rewarded in a tangible way for their achievements, but also helps the Company's retention programme. Another well-regarded initiative is the Winning Ways programme, now into its second year, which recognises employees who make a significant contribution to the business.

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People related processes and policies have been updated and are now delivered by an intranet site called ‘Fuel’, accessible to everyone within the Company. All personal information, including bank account details, formal qualifications and emergency contacts, can be updated directly. Core processes such as hiring and developing people through internal deployment can also be completed.

Paid parental leave and salary continuance were extended by AGL outside Victoria and South Australia last year, demonstrating AGL’s progressive approach to benefits and the importance placed in keeping pace with the market.

An overwhelming percentage of employees taking paid parental leave have returned at the end of their leave showing the benefit of valuing employees’ family commitments. A number of ill or injured employees have also been able to access the benefit of salary continuance which was also extended to all of AGL’s people during the year.

Life Guard

AGL is committed to providing a safe and healthy workplace for all of its people. AGL is also committed to ensuring protection of the environment by minimising any negative environmental impact of daily activities.

The health, safety and environmental programme (HS&E) called Life Guard, provides standards, processes, skills, resources and tools to identify hazards within the workplace and implement suitable controls to prevent incidents.

Work injuries that were sustained over the past twelve months were minor and were predominantly strain-related. Using the industry standard, Lost Time Injury Frequency Rate, the current rate is 3.8 which positions AGL as one of the leaders in energy industry safety.

During the year there was renewed focus on AGL’s approach to the environment. This focus resulted in environmental awareness sessions being held for those employees conducting activities or operating facilities that have a higher potential to effect the environment. AGL has increasingly seen the advantages of using environmental consultants in specialist areas. To ensure that these consultants provide the high level of service expected by AGL, an Environmental Consultants Panel was formed to oversee their selection.

With mature HS&E systems in place, the focus is now on continuing to raise HS&E awareness. Since the introduction of Life Guard into the ActewAGL joint venture there has been a reduction of over 30% in lost-time injuries. An area of emphasis this year has been on the identification of contractor injuries and incidents, with a number of reviews being conducted across the business. These have highlighted some aspects where improvements are planned and areas where good practices can be shared throughout AGL.

CORPORATE SUSTAINABILITY

As a leading energy company, AGL recognises through its emphasis on corporate sustainability the lasting imprint its business activities have on the daily lives of its customers – and the wider community. AGL also recognises the growing expectations society has of energy companies and how they conduct their business and provide their products and services.

In 2002 AGL participated in the annual assessment for the Dow Jones Sustainability Index and was successfully selected. AGL was also among the 68 companies chosen from 21 industry sectors to form the SAM Australia Sustainability Leaders Portfolio for 2002. This portfolio is used as an investment vehicle by six superannuation funds, and their members, to provide a sustainability based investment option.

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Launching AGL's new Staying Connected programme, the NSW Energy & Water Ombudsman said, "AGL has established a new benchmark for ways of dealing with customers in financial difficulties that other utility companies can look to". Our team of specialists provide customers with tailor-made, practical solutions to help them get back on track.



how

Customer service is more than just selling gas and electricity. It's about staying connected to people and understanding their everyday lives.



Corporate Social Responsibility

This year the Company embarked upon an extensive internal programme focusing on defining what Corporate Social Responsibility (CSR) means to the organisation and the best way to align its activities under one umbrella and further strengthen community relationships and partnerships. While the Company has always taken its role as a good corporate citizen seriously, the timing of this fresh approach was made more critical due to the significant growth of the business.

There is much CSR work still to be done, the results of which will become more evident over the course of the new financial year. Meanwhile, AGL has continued to be an active member of the community, concentrating its skills and expertise on activities and initiatives that reflect current social and environmental issues.

For instance, in May this year AGL launched its Staying Connected programme to assist customers experiencing difficulty paying their energy bills. Developed in consultation with the AGL Customer Council, this national programme provides customers with specialist support through a suite of options offering flexible payment plans, the suspension of outstanding debts, advice about how to be more energy efficient to lower bills and referral to financial or personal counselling.

At the NSW launch, the State's Energy & Water Ombudsman noted that Staying Connected established a new benchmark for utility companies in their dealings with customers in financial difficulties.

The AGL Customer Council has representatives from The Smith Family, the Ethnic Community Council of NSW, the South Australian Farmers Federation, St Vincent de Paul Society Victoria, South Australian Council of Social Services Inc, Country Women's Association of NSW, Consumer Law Centre of Victoria and the Australian Consumers' Association. It plays a key advisory and feedback role by canvassing issues that affect both

residential and small business customers. Recognising the valuable community viewpoint they can provide, the Company has also invited Customer Council representatives to help develop the direction of its CSR programme.

In South Australia, AGL has been running an increasingly popular community education programme called 'Energy for Life'. This interactive programme, run by AGL's Community Education Coordinator, provides educational resources and services to communities and schools that focuses on renewable energy and promoting energy efficiency.

With regard to sponsorships, AGL made a splash in summer with the launch of its sponsorship of the Nippers junior life saving programme run by Surf Life Saving Victoria. AGL involvement provided thousands of Victorian children aged between seven and fourteen with the opportunity to build their water safety awareness and gain a range of skills and development opportunities in a fun environment.

For more than a decade, AGL has been a sponsor of Young Achievement Australia (YAA), a non-profit organisation that provides programmes for secondary and tertiary students, youth at risk, the unemployed and aboriginal and disadvantaged groups.

More than 115,000 young Australians have participated in YAA's programmes which link education and business to provide young people with the skills and knowledge to enhance their future working lives.

AGL's Contact Centres in NSW, Victoria, the ACT and South Australia were put to the test during the Starlight Children's Foundation's 'Big Brother Telethon 2002'. AGL 'donated' the Contact Centres for the duration of the telethon. Over 350 staff and their families volunteered to answer the phones. During the telethon, held over two nights, more than \$600,000 was pledged for both the Starlight Children's Foundation and Ronald McDonald House.

“AGL believes ensuring a sustainable future and addressing social needs is an ongoing journey.”

AGL and the AGL 150th Anniversary Foundation made a number of financial donations to various community groups and charities such as the Salvation Army, St Vincent de Paul and the Matthew Talbot Hostel to support ongoing community programmes and medical research.

Again this year, AGL replaced its traditional corporate Christmas card with an electronic Christmas greeting. Staff were given the opportunity to nominate two charities to receive a donation equivalent to the funds saved from buying and posting printed cards. As a result, the Red Cross Farmhand Drought Appeal and Kids Helpline received \$10,000 each.

Environmental Values

AGL believes ensuring a sustainable future and addressing social needs is an ongoing journey. As part of this journey, AGL is undertaking work to refine its knowledge of the Company's environmental footprint and how we manage it. We are doing this to ensure we meet the needs and expectations of AGL's stakeholders, consistent with the Company's commitment to corporate sustainability. This is a significant undertaking, and further information about this activity will become available throughout the new financial year.

Our Life Guard programme provides a management system for our health and safety practices, and also establishes the framework for delivering our environmental accountabilities. It is this framework which can underpin our ongoing work to renew our environmental delivery.

Core to this work is the commitment by AGL to working constructively with governments and the community on greenhouse gas issues. AGL supports, in principle, the targets of the Kyoto protocol, and recognises that the growth of its business presents fresh challenges in this area.

AGL continually seeks new products and services that help customers use energy wisely and efficiently in their homes and businesses and provide the community with more environmentally friendly energy choices.

The Company buys electricity from a number of renewable energy sources. AGL has worked with a number of local councils around Australia to establish landfill gas generation facilities that extract methane from landfill sites. The gas is then used to generate electricity which is fed into the power grid, further reducing greenhouse gas emissions.

In Victoria, AGL supports the Community Power programme enabling the State's councils to join forces and buy renewable electricity more cost effectively for their constituents. This allows customers to buy green energy and contribute to the reduction of greenhouse gas emissions. The renewable energy is accredited under the National Green Power Accreditation Program.

In South Australia, the Company has been involved with Energy SA and the Conservation Council of South Australia in the development of their Energy Auditing activities as part of the State Government's Energy Friends partnership programme. Community groups that sign up as Energy Friends receive training, practical resources and a home auditing kit to allow their members to undertake grass-roots energy action in their local communities.